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## Crop insurance proven yields can be adjusted for upward trends

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# Ag Decision Maker

## A Business Newsletter for Agriculture

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### Crop insurance proven yields can be adjusted for upward trends

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Many farmers feel that the 10-year average Actual Production History (APH) yields used to determine their multiple peril crop insurance guarantees do not accurately reflect their current yield potential, due to improved crop genetics and cultural practices that have been introduced in recent years. A new feature

called the Trend-Adjusted APH will address this concern, starting in the 2012 crop year.

Trend-Adjusted APH has been approved by the Federal Crop Insurance Corporation (FCIC) Board for both corn and soybeans in most of the Corn Belt, including all counties in Iowa. Basically, a trend adjustment factor is estimated for each county. This factor is equal to the estimated annual increase in yield, and is based on county average yields determined by the National Agricultural Statistics Service (NASS) each year. Each yield reported in the individual insurance unit's APH history is adjusted upward by the trend adjustment factor, times the number of years that have passed since the yield was recorded.

Table 1 (next page) shows an example for an insurance unit

with 10 years of yield history for corn and an average yield of 163 bushels per acre. Assume that the trend adjustment factor in the county where the unit is located is 2.0 bushels per acre per year. So, 2.0 bushels are added to each yield for every year since it was recorded. Adjustments range from two bushels for the immediate past year to 20 bushels for a yield that was recorded 10 years ago. The adjusted APH yield is now the average of the

*continued on page 2*

#### Handbook updates

For those of you subscribing to the handbook, the following new update is included.

**Corn Price Basis** – A2-41 (11 pages)

**Soybean Price Basis** – A2-42 (11 pages)

**Deductible Livestock Costs for Adjusting 2011 Income Tax Returns** – B1-15 (1 page)

Please add these files to your handbook and remove the out-of-date material.

*continued on page 6*

#### Inside . . .

Employee management: Get the right start in hiring employees .....Page 3

Farmers have consistently produced themselves out of prosperity—what about this time? .....Page 4

Updating your cropland cash rental rate .....Page 6

*Crop insurance proven yields can be adjusted for upward trends, continued from page 1*

adjusted yields, 174 bushels per acre, instead of the unadjusted average of 163 bushels per acre. That is the yield that will be used to calculate the unit's crop insurance guarantee in 2012.

If a farmer has substituted a yield equal to 60 percent of the county t-yield in some year when a very low actual yield was reported, the trend adjustment is applied to the substitute yield instead of the actual yield.

In some cases the land in the insurance unit may not have an actual yield for every year, either because the crop was not planted that year, no production records were available, or other factors. The unit must have an actual yield for at least one year out of the last four to be eligible for the yield trend adjustment. If actual yields are available for fewer than four years in the last 12, the annual trend adjustment factor is reduced. For three years of actual yields, yields are increased by only 75 percent of the trend factor; for two years of actual yields, yields are increased by 50 percent of the trend factor; and for one year of actual yields, yields are increased by only 25 percent of the trend factor. So, if the yield adjustment factor for the county is 2.0, the actual adjustment would be 1.5

bushels when three years of actual yields are available, 1.0 bushels when two years of actual yields are available, and 0.5 bushels when one year of actual yields is available.

In some cases a maximum or cap will be applied to the trend-adjusted average yield. The cap is equal to the highest yield in the years of yield history for the unit, plus the annual trend adjustment. Thus, in the example above the highest yield is 197 bushels per acre (2011), so the cap would be equal to 197 bushels plus 2 bushels, or 199 bushels per acre. This is higher than the average trend-adjusted yield, so the cap is not applicable. The cap will most likely apply in cases where an insurance unit has had very stable or declining yields over time.

The Trend-Adjusted APH is available for either yield protection or revenue protection policies, at all levels of guarantee except catastrophic (CAT) coverage (50 percent yield guarantee). Group policies, such as GRIP and GRP, have used trend adjusted county yields since they were introduced, and that procedure will not change. The Trend-Adjusted APH election must be made by the insured producer by the sales closing date each year, which is March 15 for soybeans and corn in Iowa.

**Table 1. Trend-Adjusted Actual Production History Yield Example**

Year	Reported Yield, bu/ac	Yield Adjustment, bu/ac	Adjusted Yield, bu/ac
2002	133	20	153
2003	145	18	163
2004	167	16	183
2005	122	14	136
2006	157	12	169
2007	165	10	175
2008	171	8	179
2009	193	6	199
2010	176	4	180
2011	<u>197</u>	2	<u>199</u>
Average	163		174